85-1263/

MANITOBA TELEPHONE SYSTEM
489 Empress St., Winnipeg, Manitoba

Since 1908

ANNUAL REPORT

for the fiscal year ended March 31, 1984

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Established in 1908, the Manitoba Telephone System is a Provincially-owned crown corporation providing high quality service and products to all Manitobans for over 75 years.

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MANITOBA TELEPHONE SYSTEM

THE HONOURABLE SAMUEL USKIW
Minister Responsible for
The Manitoba Telephone Act

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Assistant General Manager

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General Counsel

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Marketing Manager – Business Communications

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Traffic Manager

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Operations Manager – Repair and Support Services

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Operations Manager – Network/PSCC

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Personnel Manager

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Operating Officer MTX

E. M. (TED) SCOLES
General Regional Manager – Northern

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A/Corporate Information Systems Manager

F. H. (BERT) SUTER
General Commercial Manager

JACK R. TULLOCH
A/Engineering Manager

E. H. (ED) WEBBER
A/Product Development Manager

GLENN P. WILSON
Broadcast Services Manager

GENERAL MANAGER'S OFFICE

ROGER H. BALLANCE

A. C. (AL) DeCAIGNY

BRENT H. LINTON

HIGHLIGHTS OF THE REPORT

EXPANSION OF SERVICES

- 14,744 main telephones were added to the network to total 467,220.
- Long distance calls rose 6.2 per cent to total 73.6 million.
- MTS initiated a $4.6 million Extended Area Service program for smaller communities.
- Total System revenues reached more than $300 million for the first time.

CONSTRUCTION TO MEET DEMAND

- 2,479 kilometres of wire and cable buried.
- 62 kilometres of fibre optic cable added to the network.

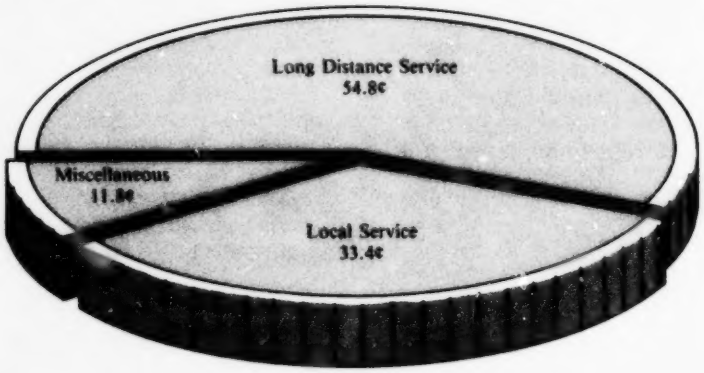
FINANCIAL	1984	1983
Capital Expenditures	$ 91,400,000	$111,131,000
Value of Telephone Plant	1,037,519,000	977,610,000
Operating Revenues	294,248,000	262,268,000
Operating Expenses	243,496,000	214,728,000
Other Revenues	15,509,000	14,273,000
Debt Charges	64,134,000	58,306,000
Net Revenue	2,127,000	3,507,000

OUTLOOK FOR THE COMING YEAR

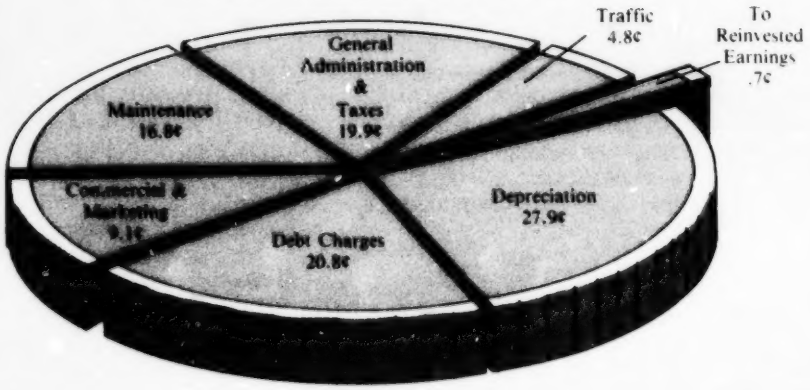
- Forecast capital expenditures of $122,000,000.
- New digital central office switches to be installed in five additional communities.

THE MTS DOLLAR FOR THE YEAR ENDING MARCH 31, 1984

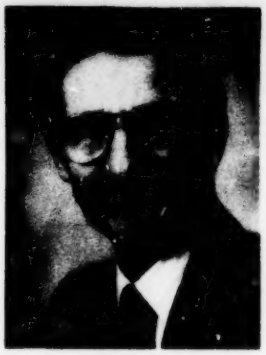
WHERE EACH DOLLAR CAME FROM:



WHERE EACH DOLLAR WENT:



CHAIRMAN'S REPORT



Saul Miller

Becoming closely involved with an industry, as I have been over the last two years as Chairman of the Board of the Manitoba Telephone System, has allowed me to obtain an overview of the industry as a whole and to gain an awareness of the trends and direction for the future. Somewhat like a weatherman, one is able to study the indicators and the climate in the adjoining regions and develop a forecast.

The gathering clouds around the Province foretell rough weather for MTS in the coming years.

The storm coming for Manitoba is the impact of competition in the long distance part of MTS' business. Since MTS uses the revenues it receives from long distance service to subsidize the local monthly telephone rates of all Manitobans, this turbulence will hit hardest the residential, small business, rural and remote telephone customers. These people currently receive the most benefit from low local telephone rates by having the cost of their service subsidized from the revenue MTS receives from long distance calling.

This same disturbance passed through the United States in the past few years. While events are still unfolding, we do know that there are now several companies offering discounted long distance calling in many areas of the U.S. Meanwhile, the local Bell companies split from AT & T have been appearing before state regulators applying for new rates and predicting 200 to 300 per cent increases in local rates in the future.

Such is the nature of the condition I see headed in Manitoba's direction. In October, 1983, CNCP Telecommunications applied to the Canadian Radio-television and Telecommunications Commission for permission to offer a competing long distance voice service. Hearings are scheduled to be held on this matter in the Fall of 1984. In British Columbia, entrepreneurs are offering residents of that Province connection with discount long distance carriers in Washington State to carry their calls to the U.S. at cheaper rates.

Even though both these events are taking place outside Manitoba, they will have an impact on overall MTS revenues through the loss of long distance revenues to the affected telephone companies. Canada's major telephone companies, through membership in Telecom Canada, jointly share the revenues from long distance calling through a complicated revenue sharing formula. If Bell, B.C. Tel and the other Canadian telephone companies experience a drop in revenues from inter-provincial long distance calling, MTS' share of these revenues will fall accordingly. So even though the skies remain sunny in Manitoba, the atmosphere elsewhere is having an impact here.

Manitobans should be aware that such changes are coming. The appeal of competition is strong. It will benefit some, while resulting in substantially higher local telephone rates for most others. Before the storm hits Manitoba with its full intensity, perhaps all Manitobans should evaluate how prepared they are for this change in the weather.

Chairman of the Board

GENERAL MANAGER'S REPORT

Gordon Holland

While recording modest net revenues of $2,127,000 during 1983-84, the Manitoba Telephone System reached a new milestone, exceeding $300 million in total revenues for the first time. It took 72 years, from 1908 to 1980, for the System to reach $200 million in total revenues, but only the last four years to increase total revenues by 50 per cent to reach $309,757,000.

Total revenues grew by 12 per cent during the year; total expenses climbed by 12.7 per cent to reach $307,630,000.

Throughout the Province, MTS expended $91,400,000 toward capital improvements to the telephone network. Each year, MTS commits millions of dollars to enhance the quality of telephone service in Manitoba, part of the ongoing role of MTS as the responsible agency for telecommunications in the Province. With each dollar spent, Manitobans have experienced a cumulative improvement in their telephone service.

MTS continues to invest in the most modern technologies, including digital switching systems and fibre optics transmission cable. These new technologies allow MTS to carry and connect communications traffic more efficiently, increasing the capacity and flexibility of Manitoba's network to better serve customers.

Another example of network improvement is the extension of telephone service to remote areas. During 1983-84, MTS installed pay telephones at Grass River Provincial Park, Grindstone Point, Princess Harbour and Rocky Lake, connected by costly radio links to distant existing network facilities. These telephones are vital in case of emergencies and, while revenues from these facilities will never be compensatory, they are a part of the MTS commitment to serve all areas of the Province.

Early this fiscal year, MTS completed a $3 million program that saw the introduction of regular local exchange telephone service for the first time in 10 Manitoba communities. Three thousand customers in Jackhead, Pine Dock, Matheson Island, Little Black River, Sherridon, Paungassi, Split Lake, York Landing, Anama Bay and God's River now have access to local dial and long distance service from their homes.

In response to customer demand, this year MTS initiated a $4.6 million Extended Area Service (EAS) program to bring smaller Manitoba communities an expanded free-calling area. MTS introduced toll-free calling between Benito and Swan River and between Cowan and Swan River in November, the first of 23 communities that will be provided with EAS over the next few years. These communities were selected on the basis of their small size, the lack of toll-free access to essential services and the high amount of calling with a nearby community.

Coaxial cable facilities were added during the year in Gimli, Leaf Rapids and Gillam, allowing the introduction of cable television service to these communities. As of March 31, 1984, 39 Manitoba communities were receiving enhanced television services over Local Broadband Networks provided by MTS.

During the year, MTS introduced pricing and discount period innovations to stimulate long distance calling and familiarize more of our customers with the benefits of instant long distance communication. Beginning in June, Manitobans could take advantage of "Surprise Sale" discounts on calling within the Province. In February, MTS placed a maximum price of 59 cents per minute on calls within Canada, made between 6:00 p.m. and 11:00 p.m. weekdays and 8:00 a.m. to 11:00 p.m. Sunday. At the same time MTS moved the start of its 60 per cent discount period back one hour to 11:00 p.m. from midnight for calls to other provinces, allowing Manitobans to take advantage of the discount at a more convenient time.

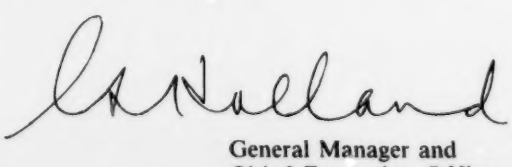
In 1983-84 MTS introduced 36 new products and services, broadening the selection and capability of telecommunication choices available to MTS customers. A new product or service introduction virtually every 10 days suggests the rapid advancements that are being made in technology and product design within the telecommunications industry in recent years.

In June, the phone services of Federal and Provincial Government offices in Winnipeg were consolidated under the Centrex private branch exchange equipment provided through the MTS digital switch in its downtown Main exchange. This move has enhanced public accessibility to government personnel, improved efficiency and permitted the addition of new calling features.

MTS' telecommunications network is maintained by nearly 4,500 employees in 82 centres around the Province. MTS makes every effort to ensure that its staff is well-equipped to handle the needs of customers. Whether it's through the System's own training programs or through support for employees' attendance at regular educational institutions, employees are continuously upgrading their skills in order to deal with new technologies.

Other opportunities for staff development come through term assignments with Telecom Canada, with Bell Canada International and with MTX operations in Saudi Arabia. MTS presently has 29 employees on-loan to Telecom Canada and 13 working in Saudi Arabia. Demand for the services of MTS employees to work out of Province continues to be strong.

The efforts of MTS staff throughout the System contributed to the continued improvement of the telecommunications network in Manitoba. Providing modern, dependable, high quality service is the ongoing goal of MTS staff and their success in achieving this goal is evident. Their traditional commitment to service has been an enduring trademark of MTS and should serve MTS and the people of Manitoba well as we address the new communications requirements of the future.



General Manager and
Chief Executive Officer

FINANCIAL

Net revenues for 1983-84 were $2,127,000 compared with $3,507,000 for the previous year. Revenues from all sources amounted to $309,757,000, an increase of 12 per cent over last year. Effective July 1, 1983, the Public Utilities Board of Manitoba approved tariff increases were implemented; the increased tariffs resulted in additional revenues of approximately $9,400,000 for the fiscal year.

Long distance service provided 58 per cent of the System's operating revenues and, at $171,112,000, were up $17,088,000 over 1982-83. Sixty-five per cent of the System's long distance revenues, over $108,095,000, were derived from the provision of inter-provincial and international services in co-operation with the other member companies of Telecom Canada.

Local service revenues increased by $12,049,000 to reach $104,350,000. Miscellaneous revenues increased by $2,781,000 with the majority of the gain coming from directory advertising revenues. Other revenues increased by $1,236,000; 67 per cent of the other revenues is attributable to interest earned on investment.

Depreciation of telecommunications property totalled $86,756,000, an increase of $10,918,000 compared to the previous year. Maintenance and operation of the network required the expenditure of $66,772,000 while Commercial, Marketing, General and Administration costs amounted to $82,330,000. Total operating expenses increased 13 per cent to $243,496,000.

Debt charges were $64,134,000 for the year, up $5,828,000 from 1982-83. Interest on long term debt increased by $5,602,000 to $57,570,000. Other interest expense and debt charges were down $1,818,000. Amortization of unrealized foreign currency losses amounted to $4,622,000 an increase of $1,996,000 from the previous year, reflecting a deterioration in the relationship of the Canadian dollar to the foreign currencies at March 31, 1984.

Some years ago, MTS recognized that the weakening of the Canadian dollar exposed MTS to a potential risk on future repayments of foreign borrowings, and initiated amortization of expected losses. During 1983-84, a significant portion of MTS' foreign debt matured. This amortization process allowed MTS to finance $9.4 million of foreign exchange premiums on these retirements without a compensating increase in telephone service rates.

New borrowings during the year consisted of $5,000,000 in short term notes and $65,000,000 in advances from the Province. Of the long term debt, $79,275,000 was retired during the year with $8,515,000 of the repayment being provided by the Sinking Fund. Contributions to the Sinking Fund of $7,504,000 were made as required under The Manitoba Telephone Act. During the year the investment fund provided $9,381,000 to cover foreign exchange premiums for Province of Manitoba off-shore advances which were retired and $11,830,000 was appropriated to the fund by the Board, resulting in a year-end balance of $32,181,000.

New telecommunications property added during the year amounted to $91,400,000 a decrease of $19,731,000 from the previous year. Total gross telecommunications property value as of March 31, 1984, was $1,037,519,000, an average investment in Plant per main telephone of $2,220.

The System's investment in MTX Telecom Services Inc. as of March 31, 1984 was $3,090,000 which consisted of 60,001 common shares at a value of $1,500,000, net operating advances of $1,563,000, and net accumulated revenues of $27,000.

THE CUSTOMER: A CONTINUING COMMITMENT TO SERVICE

As MTS has grown significantly in size and complexity since its formation in 1908, the goal of providing high quality service to residence and business customers has remained foremost in its activities.

RESIDENCE

Calling statistics indicate that the telephone continues to play a significant role in the daily lives of Manitobans. In 1983-84, a total of 1.5 billion local calls were made, an increase of eight per cent over the previous year. The number of long distance calls rose 6.2 per cent to 73.6 million. More customers enjoyed the convenience of dialing their own long distance calls, with 87 per cent of calls being dialed directly. Direct Distance Dialing is now available to nearly all Manitoba communities, or 99.9 per cent of all telephones. As well, Direct Distance Dialing Overseas (DDO) and Zero Plus (0 +) are available to 75 per cent of MTS customers. DDO permits customers to dial their own overseas calls to most countries while 0+ enables customers to dial their own person-to-person, collect, credit card calls, calls billed to another number, and calls that require time and charges information.

More than 87 per cent of Manitoba telephones are now equipped with Automatic Number Identification capability. During the past year, Amaranth was added to the list of exchanges having equipment which automatically records a caller's number when a long distance call is placed.

In June 1983 MTS began offering a "Surprise Sale" discount on direct dialed long distance service within Manitoba to familiarize more Manitobans with the benefits and reasonable costs of long distance calling. On selected evenings, Manitobans have been able to call anywhere in the Province for a flat per minute charge at significant savings in most cases. As well, in February,

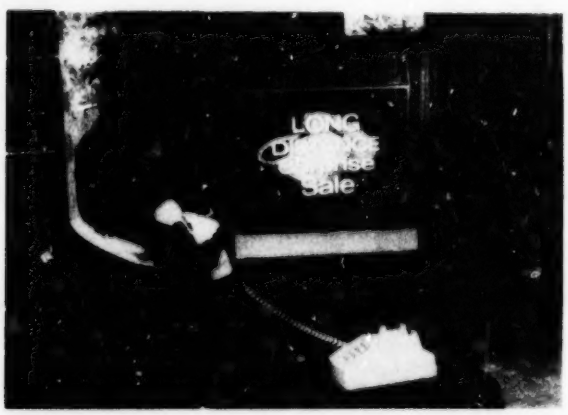
Culver Warren (left) and Jim Whyte of the Marketing Department view the new compact SL-1 switchboard at the Grace Hospital while operators Flo Minuk (left) and Olive Trudel handle incoming calls.

MTS introduced changes in rates and discount times for Manitobans calling other Canadian points. Between 6:00 p.m. and 11:00 p.m. weekdays and 8:00 a.m. to 11:00 p.m. Sundays, on top of its existing 35 per cent discount, MTS placed a maximum price of $.59 per minute on its rates, resulting in savings for those calling longer distances. At the same time, the System moved its highest long distance discount period back one hour to 11:00 p.m. for calls to other provinces. This allows more Manitobans to take advantage of the 60 per cent discount on normal rates at a more convenient time.

While encouraging the use of long distance calling, MTS is faced with the difficult task of protecting its customers from fraudulent billing of long distance calls by a small percentage of callers. During the past year, MTS stepped up its fight to stop fraudulent billing of long distance calls from pay telephones. As part of the first phase of the program which began in September 1983 MTS operators accepted no third-number billed calls from pay telephones at night. During the day, they attempted to verify the authenticity of the call with the billed party, but would advance the call if the line was busy or no one answered. As a result, MTS was able to reduce its third number fraud losses by $120,000. An additional $140,000 saving is expected during 1984-85 after the second phase of the program is in place. Scheduled to begin June 1, 1984, the second phase eliminates third number billing from coin telephones during the day unless the billed party accepts the charge, and continues the policy of not accepting third number calls at night.

In 1983-84 MTS continued to place strong emphasis on improving service for customers in rural areas of the Province. This included the introduction of individual line service for 335 customers in 15 communities, where multi-party service had previously been the standard offering. This is an ongoing MTS program with additional communities scheduled to receive service as they qualify under the size and density criteria established by the System. To date, some 15,000 customers in 280 communities have received individual line service under this program.

In November, with the addition of new trunks and central office facilities at a cost of almost $370,000, MTS introduced toll-free calling between Benito and Swan River and between Cowan and Swan River. These communities are the first of 23 Manitoba centres that will be provided with Extended Area Service over the next few years. They were selected on the basis of their small size, the lack of toll-free access to essential services and the high amount of calling with a nearby community. MTS reviewed the $4.6 million program with the Union of Manitoba Municipalities to ensure the communities chosen were those most urgently in need of the service.



The System introduced the Long Distance Surprise Sale in May 1983 enabling MTS customers to call anywhere in Manitoba on specified evenings from 8 to 10 p.m. at a reduced rate.

The introduction of TouchTone service to customers in 40 communities was made possible with equipment additions to central switching offices.

The extension of service to remote areas of Manitoba continues to be an important priority for MTS. In the past year, MTS installed pay telephones at Grass River Provincial Park, Grindstone Point, Princess Harbour and Rocky Lake. These locations have been connected to the MTS network by radio links.

The final phase of a $3.6 million program which brought local dial and long distance service to ten remote communities was completed in 1984. While Jackhead, Pine Dock, Matheson Island, Little Black River, Paungassi and Anama Bay had received service during the previous year, York Landing, Split Lake, God's River and Sherridon were completed in 1983-84. Prior to this program, these communities had only limited means of communication, which in most cases was a single pay telephone.

BUSINESS

The System continues to strive to meet the needs of its business customers for products and services which reduce costs and increase efficiency. The provision of many of these services is made possible through MTS' participation in a consortium of Canada's nine major telephone companies, and Telesat Canada, the nation's satellite communication carrier. In September of 1983, the consortium adopted the name Telecom Canada which reflects the evolution from provision of only telephone services to providers of coast-to-coast voice, data and image transmission services. Telecom Canada was formerly known as the TransCanada Telephone System.

Envoy 100 & EnvoyPost

The Envoy 100 electronic messaging service, introduced in 1981, continued to gain support among MTS customers during the past year. Across Canada, the number of subscribers to the service, offered by major telephone companies, exceeded 10,000. In addition to Envoy 100, EnvoyPost enables Envoy users to send letters electronically to post offices in Canadian cities as well as in major U.S. centres. Printouts of the letters are delivered with the regular mail the same or the following day. EnvoyPost, offered in conjunction with Canada Post, concluded its trial year in 1983-84, with delivery being offered to 20 Canadian cities. EnvoyPost was scheduled to become a commercial offering on April 1, 1984, with delivery gradually being extended to most centres in Canada.

While medium and large businesses remain the major users of Envoy 100, individuals and small businesses are beginning to make use of the service. For example, some small businesses are using EnvoyPost for invoicing, thus reducing the amount of time it takes for customers to pay bills.

Hospital Service

In January, MTS introduced a new pricing arrangement for patient telephone services to hospitals. This service has been successfully operating at Victoria General Hospital and is being introduced at Seven Oaks Hospital. MTS sought the approval of the Public Utilities Board of Manitoba to lower its rates for patient services which were previously charged at business rates or were provided by portable coin telephones. By making the service more affordable to hospitals, MTS has increased patient access to family and friends and allowed improved communications within the hospital.

Conference 600

In September 1983 Telecom Canada introduced a new national service which uses the latest developments in telecommunications technology. This service, called Conference 600, is a satellite-based, voice and color video conferencing service which enables groups of people to conduct "face-to-face" meetings electronically.

Conference 600 is currently available in five of Canada's major cities, with planned expansion to Winnipeg and other centres as market demand increases.

During the year in review, MTS personnel were involved in several such conferences, while also providing the facilities for a number of Manitoba organizations to use video conferencing.

Dataroute

In April 1983 customers in Morden, Portage la Prairie, Dauphin, Selkirk and Steinbach gained access to the Canada-wide Dataroute data transmission network. These centres joined Brandon, Thompson and Winnipeg which were already being served by Dataroute, a service offered jointly by MTS and Telecom Canada.

Teleconference Education

In the fall of 1983 and early part of 1984, the University of Manitoba, Brandon University and Assiniboine Community College began a trial in 'teleconference' education. MTS has made available Conference 300 service which interconnects the telephone lines of participating locations. Each location is equipped with a loudspeaker and microphones which makes it possible for all students and the instructor to communicate with each other.

At the University of Manitoba, instructors have been delivering lectures in history, political science, religion and education via the telephone. Brandon University has been reaching students with lectures in sociology and education, while Assiniboine Community College offered lectures in farm accounting and advanced grain marketing.

During the past year, teleconference lectures were delivered to students in Altona, Arborg, Carmen, Creighton, Dauphin, Elm Creek, Gladstone, Holland, Lundar, Mafeking, Miami, Moosomin, Maiden, Notre Dame de Lourdes, Portage la Prairie, Rossburn, Saskatoon, Shilo, Starbuck, Swan River, The Pas, Winkler and Winnipeg.

Students for whom travel time and expenses would ordinarily prohibit participation in University or college courses, can now further their education via long distance. The universities and college find that teleconferencing allows them to reach more students, while making more productive use of instructors' time.

THE NETWORK: A GROWING INVESTMENT

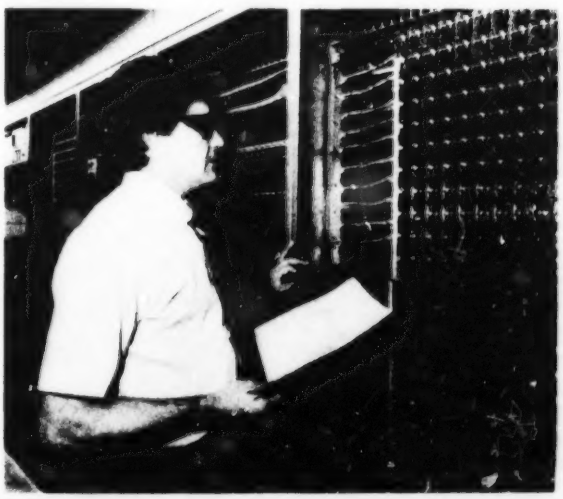
Manitoba's telecommunications network – made up of conventional as well as fibre optic cable, central office switches, microwave and other facilities – forms the backbone of the System. To increase its capacity and keep it operating efficiently, MTS undertook a capital spending program of $91 million in 1983-84. Part of this investment was the addition of 2,479 kilometres of buried wire and cable. With a 385 kilometre decrease in aerial wire in 1983-84, some 91 per cent of Manitoba's telephone wire and cable is underground. Including this year's expenditures, Manitobans have over $1 billion invested in their telecommunications network.

Broadcast Services

In the expansion of cable television service in the Province, MTS continues to play a significant role as the common carrier in Manitoba. During the past year, MTS constructed Local Broadband Networks in Gimli, Leaf Rapids and Gillam. The construction of these local coaxial facilities has enabled the introduction of CANCOM satellite television programming to these areas. Some 80 per cent of Manitoba's households are now passed by coaxial cable facilities with some 235,000 subscribers.

Two pay television channels were made available to Thompson customers in December of 1983 by D & D Cablevision. The signals are being distributed in Thompson on the MTS coaxial cable network.

MTS also completed negotiations with a major news agency to receive a subscription financial news service from an American satellite and transmit it from a satellite receive station at the MTS Sherbrook exchange to 10 Winnipeg locations using the Inter-City and Local Broadband Networks. Previously the information was transmitted from the United States over data transmission lines. This use of satellite technology and MTS' broadband networks, beginning in June 1984, provides faster transmission as well as significant cost savings for this agency.



Terry Ross, Co-ordinator for the November 1983 cutover for Central downtown Winnipeg checks the subscriber line equipment in the SP-1 office in the Main St. building.

THE TECHNOLOGY

Digital Switching

The gradual modernization of Manitoba's telephone network, using digital switching technology, is proceeding as need and financial resources dictate. This latest generation of telephone switching equipment is computer-based, handles both voice and data messages, and is significantly more flexible than electromechanical equipment. The conversion to digital switching is being carefully planned to be as economical as possible and allow efficient re-use of older equipment in suitable locations.

In April 1983 MTS installed a new digital switch in Winkler replacing electromechanical equipment which could not accommodate further growth in telecommunications needs. The new digital switch allowed the introduction of new custom calling services for Winkler customers.

In June, all Provincial and Federal Government telephone lines in Winnipeg were transferred to the digital switch in the downtown Main exchange. This change allowed the introduction of a city-wide Centrex private branch exchange service, thus enhancing public accessibility to both levels of government. The Centrex equipment allows the transfer of incoming calls to any other government telephone in Winnipeg. Staff members are able to retain their phone numbers when moving to another location, thus reducing number changes. Internally, the Centrex system allows four-digit dialing to other government departments in the city and provides capability for additional calling features to meet individual requirements. An 11,000 line extension to the existing digital switch was required to accommodate the change to city-wide Centrex service.

Manitoba's first digital switch was installed in Brandon in 1980 and in October 1983 this switch was expanded to enable it to handle long distance calls from the area. As well, work began in Virden, Stonewall, MacGregor, Woodlands and Teulon to replace present central office facilities with new digital switches in 1984-85.

Fibre Optics

Because of its decreasing cost, fibre optics is no longer an experimental technology suited only for the future. MTS is using fibre optics routinely in situations where it provides the most economical means of transmission, chiefly as a large capacity carrier between switching centres. The tremendous carrying capacity of fibre optics makes it suitable for areas where large amounts of information are being transmitted over long distances.

A 130-kilometre network linking several telephone switching offices in Winnipeg and nearby communities became fully operational in August 1983. The fibre optic network ties the Inkster, Sherbrook, Charleswood, Fort Rouge, Main and Gateway switching offices in Winnipeg and the Stonewall, Beausejour, Hazelridge areas to the long distance switching system in Winnipeg. Clearer transmission of long distance calls, highly accurate data transmission and the potential for television services are some of the benefits of the system. Construction of other fibre optic systems extending from the initial network is currently under way, with 62 kilometres of fibre optic cable installed during the past year.

MTS EMPLOYEES: MEETING THE CHALLENGE

Rapidly-evolving technologies and the growing needs of our customers for new products and services continually present opportunities and challenges for MTS. To meet these challenges, the System relies on the enthusiasm, skills and dedication of its employees throughout the Province.

During the past year, MTS bid farewell to 113 of its long-service employees who left the System under the provisions of a voluntary, early retirement program. MTS gratefully acknowledges the contribution of these long-service employees to the building of Manitoba's telecommunications network and their legacy of commitment to service that is being continued by their successors.

ADMINISTRATIVE

Mariann Burka and Frank Baker were appointed to the MTS Board of Commissioners on April 1, 1983, replacing Laurel Garvie and Michael Joseph Stadnyk.

Glenn Brand assumed the duties of Marketing Manager – Business Communications effective July 23, 1983.

Heather J. Nault was appointed to the newly created position of Manager – Financial Information Services on August 20, 1983.

Ted Scoles became General Regional Manager – Northern Region effective September 1, 1983, replacing Glenn Wilson who was appointed to the newly-created position of Broadcast Services Manager.

As part of MTS' continuing efforts to bring the System closer to the customers it serves, MTS managerial responsibility in Southeastern Manitoba has been split. In line with this reorganization, Gordon Temple was appointed Steinbach Area Manager and Bob McClintock became Area Manager – Morden/Winkler, effective September 1, 1983.

Ross Burns was appointed Traffic Manager effective October 11, 1983.

Donald Plunkett assumed the duties of Operating Officer of MTX Telecom Services Inc. effective October 1, 1983. MTX is a wholly-owned subsidiary of MTS, formed to undertake external contracts for the System.

ACKNOWLEDGEMENTS

The System is grateful for the interest and support shown in its activities during the year by the Ministers responsible for the Manitoba Telephone Act: the Honourable John S. Plohman and, subsequently, the Honourable Samuel Uskiw.

The System's 4500 employees continue to earn the appreciation of our telecommunications customers for their efforts and enthusiasm. Their strong contributions, along with the contributions and traditional dedication of the Telephone Pioneers, were essential to the progress and profile achieved by MTS during the year.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

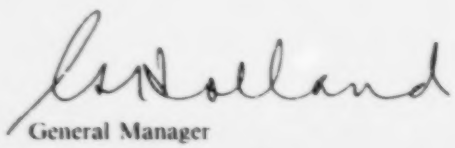
The integrity and objectivity of the financial statements and accompanying notes in the annual report are the responsibility of management.

To fulfill this responsibility, The Manitoba Telephone System maintains internal control systems to provide reasonable assurance that the books and records, from which the financial statements are derived, accurately reflect all transactions and that established policies and procedures are followed. The internal control systems are supported by regular reviews by internal auditors and by examination of the financial statements by Arthur Andersen & Co., independent chartered accountants.

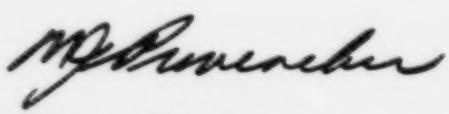
The responsibility of the Board of Commissioners for the statements is pursued principally through its Audit Committee, which meets periodically with management and the internal and external auditors, to review accounting controls, results of audits and accounting principles and practices.

The external auditors have full access to the Audit Committee both with and without management present. Their report, which provides an independent review of the system of internal controls and the compliance of the statements to generally accepted accounting principles, follows.

On behalf of management:



General Manager



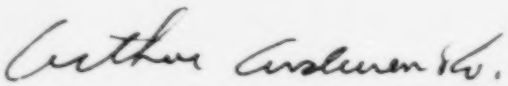
Director of Finance

ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

We have examined the balance sheets of THE MANITOBA TELEPHONE SYSTEM (a Manitoba corporation) as of March 31, 1984 and 1983 and the related statements of operations and reinvested earnings and sources of funds used for construction for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of The Manitoba Telephone System as of March 31, 1984 and 1983 and the results of its operations and sources of funds used for construction for the years then ended in accordance with the basis of accounting described in note 1(a) consistently applied during the periods.



Chartered Accountants

Winnipeg, Canada
June 1, 1984 (except with respect to the matter discussed in Note 11 as to which the date is October 1, 1984)

THE MANITOBA TELEPHONE SYSTEM

STATEMENTS OF OPERATIONS AND REINVESTED EARNINGS FOR THE YEARS ENDED MARCH 31, 1984 AND 1983

	1984	1983
	(In thousands of dollars)	
OPERATING REVENUES		
Long distance service	$171,112	$154,024
Local service	104,350	92,301
Miscellaneous (note 2)	20,838	18,057
Less uncollectible operating revenues	(2,052)	(2,114)
	294,248	262,268
OPERATING EXPENSES		
Maintenance	52,020	45,919
Depreciation	86,756	75,838
Traffic	14,752	13,731
Commercial and marketing	28,126	25,603
General and administration (note 10)	54,204	47,529
Operating taxes (note 3)	7,638	6,108
	243,496	214,728
NET OPERATING REVENUES	50,752	47,540
OTHER REVENUES (note 4)	15,509	14,273
NET REVENUES BEFORE DEBT CHARGES	66,261	61,813
DEBT CHARGES (note 5)	64,134	58,306
NET REVENUES FOR THE YEAR	2,127	3,507
REINVESTED EARNINGS AT BEGINNING OF YEAR	98,383	94,876
REINVESTED EARNINGS AT END OF YEAR	$100,510	$ 98,383

The accompanying notes are an integral part of these statements.

THE MANITOBA TELEPHONE SYSTEM

BALANCE SHEETS – MARCH 31, 1984 AND 1983

ASSETS

	1984	1983 (Note 12)
	(In thousands of dollars)	
TELECOMMUNICATIONS PROPERTY		
Buildings, plant and equipment	$997,150	$930,735
Less accumulated depreciation	429,271	375,362
	567,879	555,373
Land	5,727	5,698
Materials and supplies, at cost	9,150	8,164
Plant under construction	25,492	33,013
	608,248	602,248
INVESTMENTS (note 6)	4,089	2,976
INVESTMENT FUND (note 7)	32,181	29,732
CURRENT ASSETS		
Temporary cash investments	21,051	22,234
Accounts receivable	33,333	32,375
Prepayments	4,263	5,859
	58,647	60,468
DEFERRED CHARGES		
Unrealized foreign currency losses, less amortization	18,936	19,511
Unamortized long-term debt expenses	3,316	3,830
Preliminary engineering and miscellaneous	3,131	2,055
Deferred employee benefit, less amortization	3,325	3,740
	28,708	29,136
	$731,873	$724,560

Approved on Behalf of The Board

D. H. Miller

Chairman

The accompanying notes are an integral part of these balance sheets.

THE MANITOBA TELEPHONE SYSTEM

BALANCE SHEETS – MARCH 31, 1984 AND 1983

LIABILITIES

	1984	1983 (Note 12)
	(In thousands of dollars)	
DEBT		
Long-term debt (note 8)	**$597,862**	$607,023
Less sinking fund investments	**46,745**	47,757
	551,117	559,266
Mortgage payable	**–**	2,462
Notes payable	**5,000**	4,800
	556,117	566,528
REINVESTED EARNINGS	**100,510**	98,383
DEFERRED EMPLOYEE BENEFIT	**12,750**	12,514
CURRENT LIABILITIES		
Outstanding cheques less cash in bank	**5,345**	3,798
Accounts payable and accrued liabilities	**33,037**	26,120
Advance billings and payments	**2,926**	2,630
Accrued interest	**18,726**	14,587
Mortgage payable, balance due within one year	**2,462**	–
	62,496	47,135
COMMITMENTS AND CONTINGENCIES (notes 9 and 11)		
	$731,873	$724,560

Commissioner

THE MANITOBA TELEPHONE SYSTEM

STATEMENTS OF SOURCES OF FUNDS USED FOR CONSTRUCTION

FOR THE YEARS ENDED MARCH 31, 1984 AND 1983

	1984	1983 (Note 12)
	(In thousands of dollars)	
SOURCES OF FUNDS		
Internal		
From operations including charges which do not involve an outlay of funds	$ 94,759	$ 82,663
Investment fund	9,381	1,985
	104,140	84,648
External		
Notes payable	5,000	4,800
Province of Manitoba advances	65,000	65,000
Mortgage, net of principal reduction	–	2,462
	174,140	156,910
FUNDS USED FOR OTHER THAN CONSTRUCTION		
Repayment of bonds and advances payable	79,275	6,006
Less payment from sinking fund	8,515	341
	70,760	5,665
Reclassification of long term mortgage payable	2,462	–
Repayment of notes payable	4,800	14,450
Contribution to sinking fund	7,504	6,835
Contribution to investment fund	11,830	4,000
Payments toward deferred employee benefit	1,241	433
Increase in investments	1,113	1,410
Increase (decrease) in working capital	(17,182)	13,387
	82,528	46,180
TOTAL FUNDS PROVIDED FOR CONSTRUCTION	$ 91,612	$110,730
FUNDS USED FOR CONSTRUCTION		
New telecommunications property added	$ 91,400	$111,131
Cost of removing old property	2,609	1,266
	94,009	112,397
Less salvage value of property retired	2,397	1,667
TOTAL FUNDS USED FOR CONSTRUCTION	$ 91,612	$110,730

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1984 AND 1983

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except for the accounting for pension costs as set out in Note 10. The system of accounts and practices are similar to those used by other Telecom Canada members.

(b) Basis of Presentation

The investment in the wholly-owned subsidiary, MTX Telecom Services Inc., has been accounted for by the equity method (see Note 11) as the results from operations of this investment are not material to the financial statements of The Manitoba Telephone System (the "System").

(c) Telecommunications Property

Telecommunications property is recorded at original cost including materials, direct labour and overhead costs which vary with the level of construction. In addition, the System includes the cost of funds used to finance the construction, based on the duration of the projects.

(d) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of telecommunications property by applying rates which are based on a continuing program of engineering studies.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

(e) Translation of Foreign Currencies

Foreign currencies have been translated into Canadian funds at rates of exchange on the following basis:

i) long-term debt at rates prevailing at year end;
ii) accrued interest at rates prevailing at year end;
iii) debt charges at rates prevailing at the date of each transaction.

The unrealized loss resulting from the policy of using rates prevailing at March 31 is being amortized over the remaining term of the debt.

(f) Deferred Employee Benefit

The deferred employee benefit represents a sick leave vesting plan. The initial cost of this plan, which became effective June 1, 1977, is being amortized on a straight-line basis over fifteen years. The annual sick leave entitlements subsequent to June 1, 1977 are being accrued and charged to expense in the year to which they relate. Payments to employees on termination are being charged to the deferred liability.

2. MISCELLANEOUS OPERATING REVENUE

	1984	1983
	(In thousands of dollars)	
Miscellaneous operating revenue includes:		
Directory advertising	**$15,107**	$13,391
Rentals and attachments	**4,724**	3,968
Other	**1,007**	698
	$20,838	$18,057

3. OPERATING TAXES

This category represents grants to municipalities in lieu of property taxes, the System's portion of Canada Pension Plan and Unemployment Insurance, the Health and Education Levy and general levies.

4. OTHER REVENUES

	1984	1983
	(In thousands of dollars)	
This group of revenue includes:		
Interest earned on investments	**$10,460**	$10,125
Surcharge on overdue accounts	**1,266**	1,335
Interest charged to construction	**1,422**	1,287
Net recoveries from foreign contracts	**258**	320
Miscellaneous, net	**2,103**	1,206
	$15,509	$14,273

5. DEBT CHARGES

	1984	1983
	(In thousands of dollars)	
Debt charges includes:		
Interest on long-term debt	**$57,570**	$51,968
Amortization of unrealized foreign currency losses	**4,622**	2,626
Amortization of long-term debt expenses	**777**	729
Other interest expense and debt charges	**1,165**	2,983
	$64,134	$58,306

6. INVESTMENTS

	1984	1983
	(In thousands of dollars)	
MTX Telecom Services Inc.		
60,001 common shares, at cost	**$ 1,500**	$ 1,500
Net operating advances	**1,563**	712
Surplus (Deficit)	**27**	(235)
	3,090	1,977
Telesat Canada		
99,900 common shares, at cost	**999**	999
	$ 4,089	$ 2,976

7. INVESTMENT FUND

During the year the Board of Commissioners approved net contributions to the fund of $11,830,000 and withdrawals from the fund of $9,381,000. The fund is comprised of short-term investments held in trust by the Minister of Finance of the Province of Manitoba. Interest on the fund is recorded as income in the period it is earned.

8. LONG-TERM DEBT

	1984			1983
	Outstanding at rates prevailing March 31, 1984	Foreign exchange adjustment Note 1(e)	Outstanding at rates prevailing when debt incurred	Outstanding at rates prevailing when debt incurred
	(In thousands of dollars)			
PROVINCE OF MANITOBA ADVANCES				
Series 10P, 4½%, due November 1, 1983 (98.6 million Swiss Francs)	$ -	$ -	$ -	$ 49,122
Series 10E, 9¼%, due December 9, 1985 (26.4 million Units of Account)	34,746	1,327	33,419	33,545
Series 10J, 8 3/5%, due February 28, 1987 (8.4 billion Japanese Yen)	47,507	16,560	30,947	34,813
Series 11M, 13¼%, due October 13, 1987	65,000	-	65,000	65,000
Series 10V, 9¼%, due December 1, 1988	25,000	-	25,000	25,000
Series 11E, 14¼%, due July 1, 1991 (40.0 million U.S. Dollars)	51,060	3,098	47,962	47,962
Series 11J, 15¼%, due March 31, 1992	40,000	-	40,000	40,000
Series 10T, 9¼%, due May 15, 1998	12,090	-	12,090	12,090
Series 11A, 10¼%, due August 1, 1999	20,000	-	20,000	20,000
Series 9X, 10%, due December 5, 1999	10,000	-	10,000	10,000
Series AD, 10 2/5%, due May 15, 1986	65,000	-	65,000	-
	370,403	20,985	349,418	337,532
BONDS PAYABLE				
Debentures issued by the System fully guaranteed by the Province				
Series 1B, 5½%, due November 15, 1983	-	-	-	15,000
Series 1D, 5¼%, due December 1, 1984	12,000	-	12,000	12,000
Series 1C, 5½%, due December 2, 1986	12,500	-	12,500	12,500
Series 1J, 7¼%, due February 15, 1989	10	-	10	10
Series 1M, 8%, due September 15, 1989	108	-	108	108
Series 1E, 5%, due January 15, 1991 (14.5 million U.S. Dollars)	18,510	2,930	15,580	15,580
Series 1N, 7 7/8%, due November 15, 1991	20,000	-	20,000	20,000
Series 1F, 6¼%, due December 1, 1991	20,000	-	20,000	20,000
Series 1Q, 6½%, due January 3, 1992 (80.0 million Swiss Francs)	47,331	22,291	25,040	25,040
Series 1G, 7%, due February 16, 1993	20,000	-	20,000	20,000
Series 1P, 7 7/8%, due March 15, 1993	10,000	-	10,000	10,000
Series 1T, 10%, due July 2, 1995	10,000	-	10,000	10,000
Series 1U, 10½%, due May 1, 1996	20,000	-	20,000	20,000
Series 1S, 8¾%, due March 1, 1999	37,000	-	37,000	37,000
	227,459	25,221	202,238	217,238
	$597,862	$46,206	$551,656	554,770
Foreign Exchange Adjustment				52,253
Outstanding at Rates Prevailing March 31, 1983				$607,023

For Series 10E, both annual interest and principal on maturity are payable in a currency of exchange at the choice of the holder.

Under the requirements of The Manitoba Telephone Act, the System is required to pay to the Minister of Finance of the Province of Manitoba, as trustee for the sinking fund, an amount which is not less than 1% of the long-term debt outstanding at the end of the preceding fiscal year and 4% of the sinking fund balance at the end of the preceding fiscal year. The market value of the investments held in the fund at March 31, 1984 is $36,431,000 (1983 – $39,254,000).

If the System incurs no new long-term debt and assuming exchange rates at March 31, 1984 remain unchanged, the following payments will be required to meet sinking fund conditions and debt retirements:

Year Ending March 31	Sinking Fund Payments	Debt Retirement
	(In thousands of dollars)	
1985	$7,849	$ 28,679
1986	7,741	31,880
1987	7,726	102,967
1988	6,898	68,130
1989	6,492	28,140

9. COMMITMENTS

Purchase Commitments –
Commitments at March 31, 1984, relating principally to the purchase of equipment for future delivery and uncompleted contracts, were approximately $16,890,000.

Lease Commitments –
The Manitoba Telephone System rents buildings and construction and other equipment under operating leases. The aggregate annual rental of the commitments under the leases, which expire at varying dates to March 31, 1989, are:

1985	$1,700,000
1986	906,000
1987	793,000
1988	682,000
1989	389,000

10. PENSION

Employees of the System are pensionable under the Civil Service Superannuation Fund and make contributions at prescribed rates. The System is required to pay 50% of the Fund's pension disbursements made to retired employees. The payments are charged to general and administration expenses as incurred.

An actuarial evaluation of the Fund was conducted as at December 31, 1980. The results of the evaluation indicate that at the date of review the employees' portion of the Fund was in a sound financial position.

According to the formula contained in the report issued after the evaluation, the unrecorded liability which the System had at December 31, 1983 as a result of the participation of employees under the Civil Service Superannuation Act was:

(a) if no allowance is made for future increases in pension due to increases in the cost of living, $94,042,000.

(b) if allowance is made for future increases in pension due to increases in the cost of living, $135,943,000.

During the year, a $5,000,000 provision was recorded to recognize the System's liability as a result of implementing an early retirement program and from legislated changes to the Pensions Benefits Act. This provision is included in general and administration operating expense in the accompanying statements of operations and reinvested earnings.

11. MTX TELECOM SERVICES INC.

MTX Telecom Services Inc., a wholly-owned subsidiary, was incorporated on January 15, 1982 for the purpose of marketing telecommunications equipment and services primarily outside of Manitoba.

During the years ending March 31, 1984 and 1983, there were the following intercompany transactions.

	1984	1983
	(In thousands of dollars)	
1. Administration fee charged by the System for rent, accounting and other administration services	$ 128	$ 81
2. Sales of surplus equipment, and support staff provided to MTX Telecom Services Inc. by the System	$1,065	$515
3. Purchases of new equipment by the System from MTX Telecom Services Inc.	$ 840	$584
4. Balance owing to MTX Telecom Services Inc. at March 31, included in accounts payable and accrued liabilities	$ 103	$303
5. Interest charged by the System on advances to MTX Telecom Services Inc.	$ 68	$ 71

Following is a brief summary of the financial statements of MTX Telecom Services Inc. for the years ending March 31, 1984 and 1983.

	1984	1983 (Note 12)
	(In thousands of dollars)	
Sales	$6,580	$3,964
Cost of sales	5,935	3,728
Gross profit	645	236
Operating expense	320	130
Operating income	325	106
Interest expense (net)	63	27
Net income for the year	$ 262	$ 79
Total assets	$3,934	$3,207
Total liabilities	2,407	1,942
Shareholder's Equity	$1,527	$1,265

Included in total assets of $3,934,000 at March 31, 1984 is an investment of $794,053 recorded at cost, representing MTX Telecom Services Inc.'s ("MTX") 50% ownership in a Saudi Arabia Limited Liability Company ("SADL"). The remaining 50% ownership is held by a Saudi Arabia Company. SADL was incorporated in the Kingdom of Saudi Arabia in June 1983. MTX accounts for its investment in SADL on the equity method.

Subsequent to March 31, 1984 (October 1, 1984), an agreement was signed by the shareowners of SADL that contain among other provisions, that certain management fees, representing various administrative and other related services, be charged by SADL to a division of the 50% Saudi Arabia shareowner. This agreement is retroactive to the date of incorporation of SADL.

Management fees charged from the date of incorporation to March 31, 1984, approximating $746,000, have been reflected in the accounts of SADL at March 31, 1984. SADL has no income or loss from its operations for the period ending March 31, 1984 and accordingly, MTX has not recorded any income or loss from its investment in SADL. The recovery of the investment in SADL is dependent upon the success of its future operations. Management believes that the investment in SADL is realizable.

MTX has certain trade receivables due from related parties of the 50% Saudi Arabia shareowner totalling approximately $2,300,000 at March 31, 1984.

12. 1983 FINANCIAL STATEMENTS

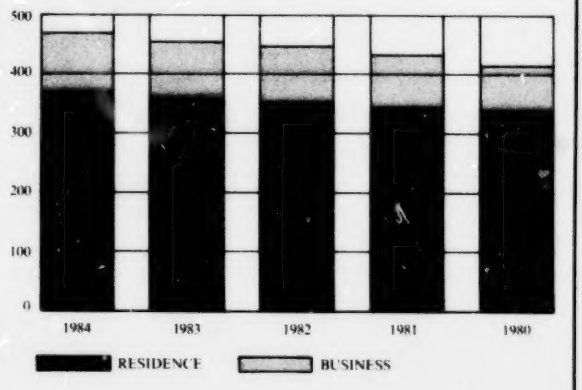
Reclassifications have been made to certain 1983 figures to conform to the 1984 presentation.

FIVE YEARS IN REVIEW

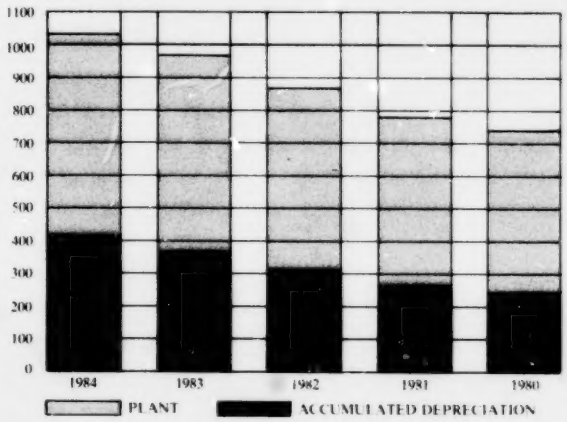
FOR THE YEAR ENDED MARCH 31

STATEMENT OF OPERATIONS (In thousands of dollars)	**1984**	1983	1982	1981	1980
Total operating revenues	**$ 294,248**	$262,268	$244,554	$221,073	$198,390
Total operating expenses	**243,496**	214,728	196,807	164,616	142,961
Other revenues	**15,539**	14,273	11,832	8,767	9,064
Debt charges	**64,134**	58,306	53,397	51,775	51,308
Net revenues	**2,127**	3,507	6,182	13,449	13,185
BALANCE SHEET (In thousands of dollars)					
Telephone Plant	**$1,037,519**	$977,610	$879,863	$793,034	$730,466
Accumulated depreciation	**429,271**	375,362	313,908	263,376	230,709
Investment and sinking funds	**83,015**	80,465	70,546	66,160	60,992
Government advances	**370,403**	365,121	310,833	271,830	275,117
Bonds payable	**227,459**	241,902	245,266	263,435	268,523
Construction expenditures	**91,400**	111,131	103,692	82,741	72,941
Reinvested earnings	**100,510**	98,383	94,876	88,694	75,245
TELEPHONE STATISTICS					
Plant investment per main telephone	**$ 2,220**	$ 2,138	$ 1,962	$ 1,814	$ 1,710
Main Sets in Service					
Business	**88,385**	81,336	80,486	77,593	74,452
Residence	**383,507**	375,812	367,991	359,695	352,655
Total	**471,892**	457,148	448,477	437,288	427,107
Per cent dial	**100.0**	100.0	100.0	100.0	100.0
Main Telephones added during year	**14,744**	8,671	11,189	10,181	9,589
Average daily local calls (in thousands)	**4,224**	3,908	3,820	3,675	3,646
Average daily long distance calls (in thousands)	**201**	190	182	166	154
OTHER STATISTICS					
Salaries and wages (in thousands)	**$ 122,049**	$114,549	$105,456	$ 91,201	$ 82,708
Number of employees	**4,537**	4,499	4,636	4,677	4,689
Employees per thousand main telephones	**9.6**	9.8	10.3	10.7	11.0
Long-term debt percentage of total invested capital	**84.2**	84.7	84.0	83.9	85.6
Debt charge coverage ratio	**1.0**	1.1	1.1	1.3	1.3
Effective average debt rate	**10.6**	9.9	9.5	9.5	9.4

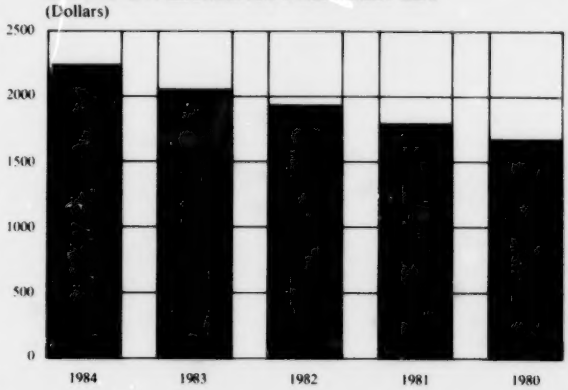
MAIN SETS IN SERVICE
(Thousands)



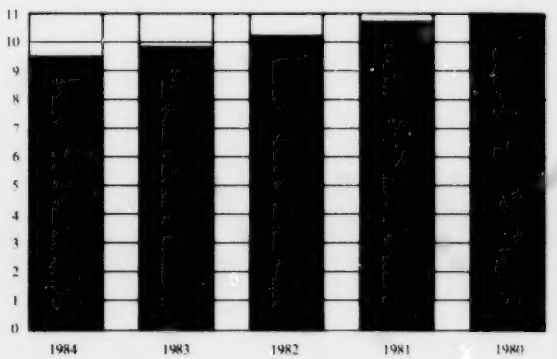
TELEPHONE PLANT
(Millions)



PLANT INVESTMENTS PER MAIN SET
(Dollars)



EMPLOYEES PER 1000 MAIN SETS



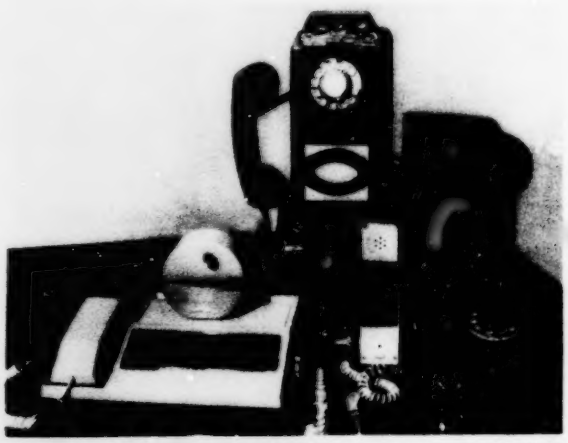
NEW OFFERINGS TO MEET CUSTOMER NEEDS

Ken Funk, Marketing, feels the Mitel Superswitch is the answer to small business communication problems. The console will serve up to 100 telephone sets in one building.

The Minicom II set is designed for contacting those who have a hearing impairment.

Displayphone – the first sophisticated business telephone and computer terminal in one to give users the information they need on the screen while they are on the telephone.

City wide Centrex is being provided to Federal and Provincial governments through the use of Remote Line Modules and digital technology. Central Officeman Bob Tigg monitors the line cards.



MTS offered five unique new telephones to customers on an outright sale basis in November 1983. From left the extension sets are the AM/FM Clock Radio Telephone, Pac Man, Decorator Coin, Tone Fone and Candlestick.

POOR

QUALITY

ORIGINAL